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Lachlan Valley Water Inc
ABN 38 597 032 631
Sustainable, productive and efficient water use in the Lachlan Valley

# Supplementary Submission to IPART

# on Tariff Structure and Metering Reform

# WaterNSW Regulated Charges 2021 - 2025

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**SUPPLEMENTRY SUBMISSION**

**ON TARIFF STRUCTURE and NON-URBAN METERING REFORM**

## 1. Introduction

Lachlan Valley Water (LVW) would like to take the opportunity to provide additional input on tariff structures and the costs of implementing the metering reforms.

## 2. Tariff Structure

System inflows, and therefore water availability and usage, have been highly variable in the Lachlan and Belubula over the last 20 years. As a result these valleys wear a significant share (25%) of the volatility allowance for WaterNSW charges, despite the forecast usage only amounting to 5% of the state-wide estimate. This has led LVW to investigate the benefits and risks of moving from a 40% fixed, 60% usage-based price structure to 80:20 or 60:40 pricing.

This was also an issue during the 2017 determination, when we consulted members on preferred price structures and while there was support for 80:20 it was not unanimous.

The table below shows how the WaterNSW draft prices would change, and our calculation, which has been confirmed by WaterNSW, is that the breakeven usage level for general security licences is 18%, but that at all usage levels the 40:60 pricing is more economic for high security licences.

**Table 1. Lachlan/Belubula Prices at different fixed:usage ratios**

| REGULATED RIVER | 2020/21 Water NSW charges at 40:60 | IPART Draft WaterNSW charges at 40:60 | WaterNSW charges adjusted to 80:20 |
|---|---|---|---|
| **Fixed ($/ML entitl.)** | | | |
| High security | 16.56 | 23.88 | 45.88 |
| General Security | 2.94 | 3.53 | 6.78 |
| | | | |
| **Usage ($/ML used)** | | | |
| High security | 20.51 | 28.26 | 9.05 |
| General security | 20.51 | 28.26 | 9.05 |

Consultation with members has been challenging due to several factors:

- the significant reduction between the bulk water prices proposed by WaterNSW and IPART's draft determination, and the possibility that there may be further changes in the final IPART determination
- LVW's calculation is that for high security licences using 100% of entitlement, the additional cost as a result of 80:20 pricing compared with 40:60 is approximately $3/ML. However, for a high security licence using only 50% of entitlement, the additional cost of 80:20 pricing would equate to approximately $25/ML, and $35/ML at only 40% usage. Consequently the response of high security licence holders depends significantly on what proportion of their high security allocation is used, whether they also own a general security licence, and therefore what the net impact will be.

- The Lachlan's average general security usage since 2004, when the Water Sharing Plan commenced, has been 18.9%, and for the Belubula it has been 19.7% since their WSP commenced in 2012. (Both calculations exclude the current 2020/21 water year). The millennium drought was extremely severe in the Lachlan, with licenced usage very limited, and six years of zero general security allocation between 2002/30 and 2009/21. However, if we exclude the Millenium drought for the Lachlan, the average usage for the last 10 years from 2010/11 to 2019/20 has been 28.3%, for which 80:20 pricing would generate a benefit of approximately $8/ML used.
- We acknowledge that water users' views on tariff structure will depend on their usage pattern, and we also acknowledge the question raised as to whether an 80:20 ratio may lead to increased water usage
- The NSW Government provided a waiver on water charges for three of the Millenium drought years and has done more recently across the state as a drought assistance measure, but we understand it this is a discretionary response.
- As noted in our initial submission, studies are underway on the Wyangala Dam augmentation project, but the EIS has not been finalised and it requires NSW and Federal Government approval. While WaterNSW has been clear that the aim will be to minimise any impacts on water availability, it is not clear what the Government's approach to water charges will be if access does need to be restricted.

LVW has also raised with WaterNSW whether a mixed tariff approach is possible, where high security licences are on 40:60 and general security on 80:20. Their response has been that it is too complex for this determination, and LWV accepts that, but considers that all options should be considered in future determinations.

Lachlan Valley Water is continuing consultation with members on tariff structure but it is difficult because of the issues listed above and we do not have a clear position in support of 80:20. Nor do we expect to have unanimous support because of licence holders' different usage patterns and risk profiles, and because there may be different views in the Lachlan and Belubula, so we request that IPART provides some guidance on the level of support needed to move to a different tariff structure.

***Recommendation:*** *That IPART provide information on what level of customer support is needed to change the tariff structure.*

## 3. Metering Reforms

LVW fully supports an accurate metering framework, but does not believe licence holders should be paying the full cost of the metering reform program when it is primarily the outcome of inadequate performance by WaterNSW of existing meter reading and compliance responsibilities in the past, and the slow implementation of the National Framework for Non-Urban Water Metering, which is also acknowledged in the Cardno Report[1].

Over the last 20 years WaterNSW have significantly reduced the number of customer field staff in the Lachlan catchment, and while we accept it is WaterNSW's decision on how to deliver these services, the outcome should meet the required standard.

In addition, metering reform has been under consideration for some years. DPI Water were consulting on a water take measurement strategy in 2015, and described this in their

[1] Cardno Review of WaterNSW's Metering Reform Costs, p48

submission[2] to IPART in 2015, with the aim of finalising it in 2016. However, this was not achieved and was subsequently overtaken by the Matthews Inquiry and the MDBA Compliance Review, which resulted in the metering reforms that were consulted on and legislated in 2018.

> *LVW considers it is the obligation of Government to cover the cost of reforms arising from inadequate performance of existing responsibilities.*

The Lachlan and Belubula have privately-owned meters, so customers in this region are already required to bear the substantial costs of either accuracy testing and validating an existing meter or installing a new meter, plus installing or upgrading telemetry, in order to be compliant. Consequently, LVW does not believe it is reasonable for water users in the Lachlan and Belubula to pay the cost of implementing the metering reform program.

LVW also assesses the impact the costs of the metering reform program will have on smaller licences is significant, particularly on unregulated systems where ability to pump may be sporadic, and considers there may be downsizing of pumps to below 100mm, but have not undertaken any enquiry on this yet.

The Cardno Report also notes that they cannot conclude the expenditure proposed for the metering reform is prudent and efficient, and recommends a more robust business case should be prepared.

> *LVW therefore supports the IPART position that WaterNSW should bear the risks and costs associated with the implementation of the metering policy until it has demonstrated that its proposed costs are efficient.*

With regard to the telemetry system, and while many larger irrigators already had telemetry devices operating to enable efficient management of their irrigation systems, we assess the primary purpose of the telemetry system approved by Government is to provide evidence to support NRAR enforcement. This has contributed to a high-cost telemetry and data acquisition system (DAS), with WaterNSW estimating the cost over 4 years at $24 million to download data from local intelligence devices (LID) and operate the DAS and DQP portal.

> *LVW considers it not appropriate for licence holders to bear the cost of the telemetry system, particularly in the initial phase while relatively few licences are utilising it, and supports the NSWIC recommendation that a phase-in approach be applied until economies of scale are achievable.*

[2] DPI Water submission to IPART, September 2015, p 75-78, 157-167